



Metrics That Matter: Advancing CDFI Small Business Lender Financial Analysis

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Presenters



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Objectives

- **Share new financial analysis that supports a stronger understanding of the financial performance of CDFI small business lenders.**
- **Explore and discuss how a new and improved set of financial metrics may lead to stronger financial decisions and outcomes for CDFIs.**

Agenda

- **Introductions**
- **Challenges of the Present Moment**
- **Why New Metrics?**
- **New Metrics Defined**
- **New Metrics Applied in Practice**
- **Your thoughts: Are these metrics (more) helpful? How?**

Microfinance Impact Collaborative



- Originate hundreds or thousands of loans of less than \$100K annually.
- Actively seeking to scale originations of these loans.

Usual metrics leave an incomplete picture

- In 2023 and 2024, many MIC members struggled with portfolio issues and net income, triggering covenants.
- They had also stepped up to lend and grant over \$2B in the prior years.
- Despite covenant violations, all were stronger from a balance sheet perspective compared to 2020 and able to weather the issues.

Red flag vs strength?

- Weak on covenants using traditional metrics
- Strong balance sheets and immense growth

CDFIs manage to covenants rather than what best advances their mission

- PAR Challenges
- Self-sufficiency ratio misses
- Net income misses

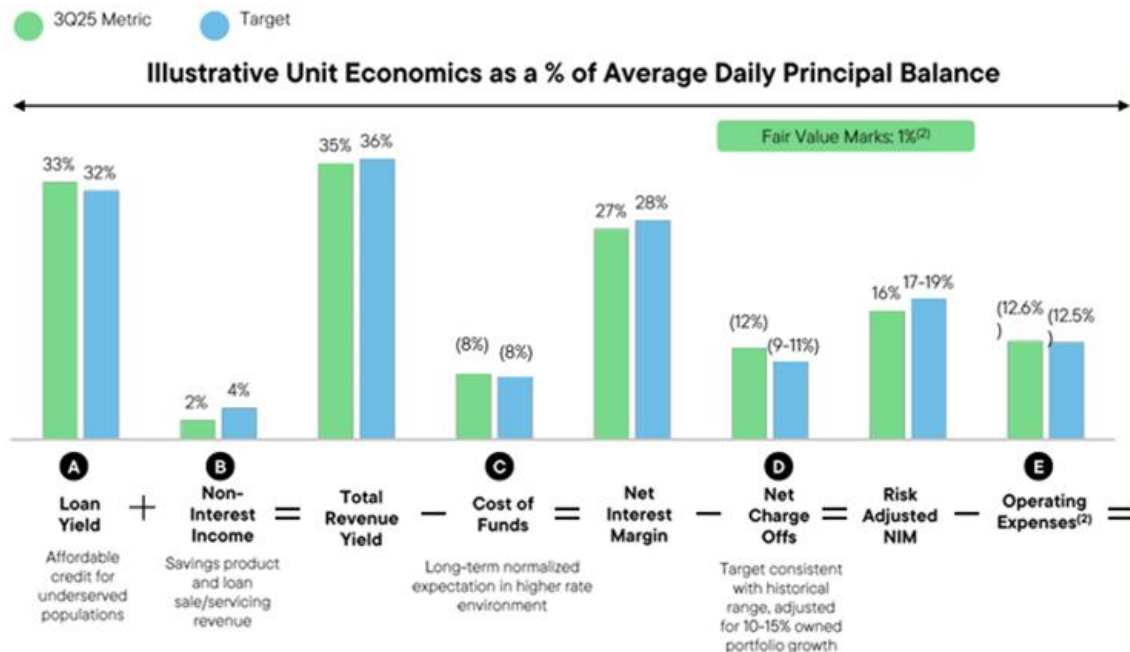
Have led to...

- Avoiding secondary market transactions that add value;
- Missing out on deals to avoid a certain income characterization;
- Delaying key system investments even when net assets can handle the outlay...

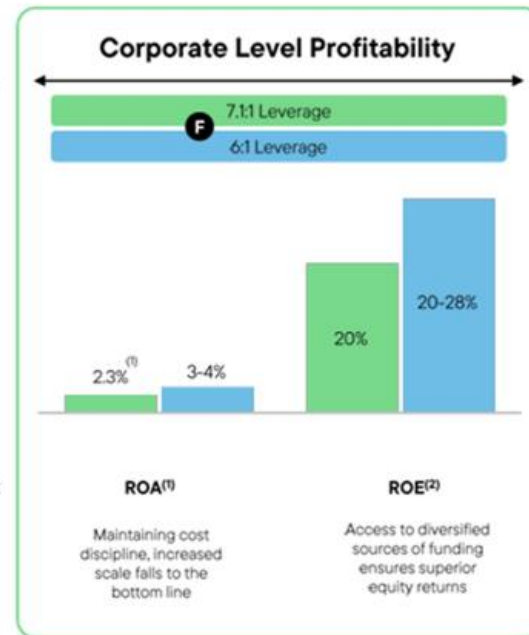
What did we set out to do with new metrics?

1. Create metrics that help better manage the business real time.
Covenants are not the same as strategic metrics/KPIs.
2. Consider new covenants that allow CDFIs to use the metrics above for the best decisions possible (poorly designed covenants can get in the way!).

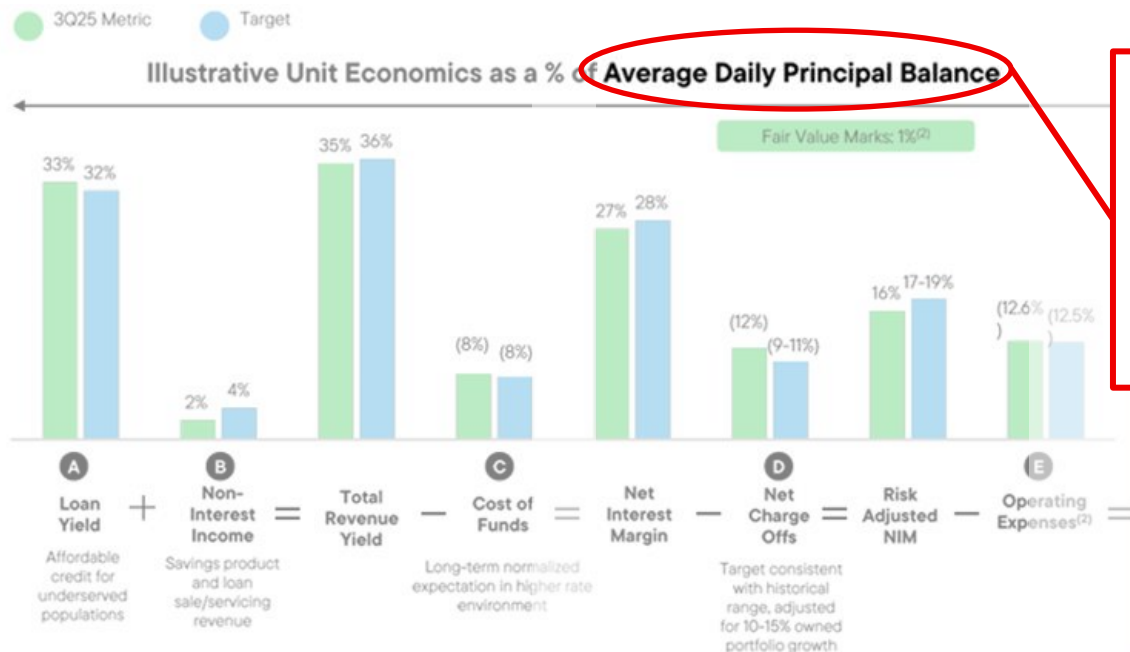
We started with a review of other metrics



⁽²⁾ Corporate level ROA based on adjusted for rate of 27.0%



We adapted the tools for CDFIs

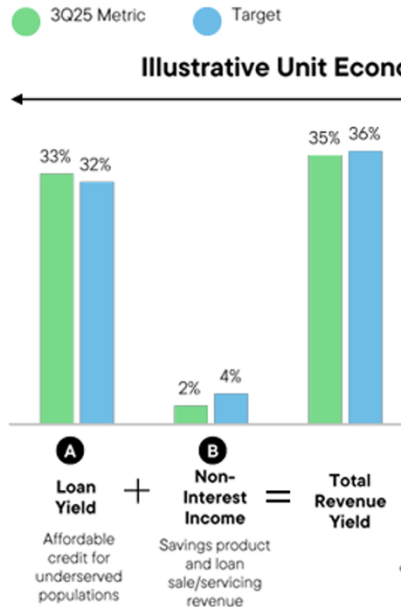


We set our metrics over Portfolio AUM. Better represents choices made about on and off balance sheet tools.

Normalizes all comparisons.



Earned Revenue Yield

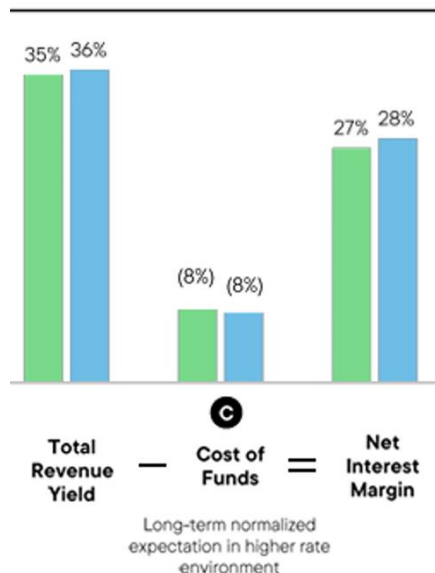


© Concrete Level DNA based on assumptions

- Loan yield + non-interest income = **Earned Revenue**
- Earned Revenue / Portfolio AUM = **Revenue Yield**
- **What does it tell you?** Strength at generating income from the portfolio (interest, fees, etc)

Net Margin

nit Economics as a % of Averag

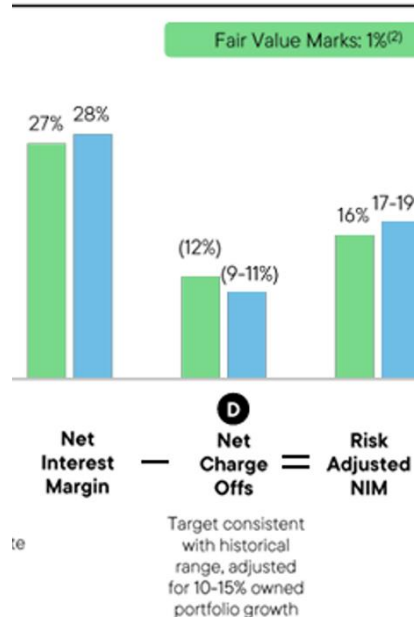


NA based on assumed tax rate of 27.0%

- $\text{Earned Revenue} / \text{Portfolio AUM} = \text{Revenue Yield}$
- $\text{Cost of Funds} = \text{Interest Expense} / \text{Portfolio AUM}$
- $\text{Revenue Yield} - \text{Cost of Funds} = \text{Net Margin}$
- **What does it tell you?** Has revenue generation been hampered by the cost of capital?

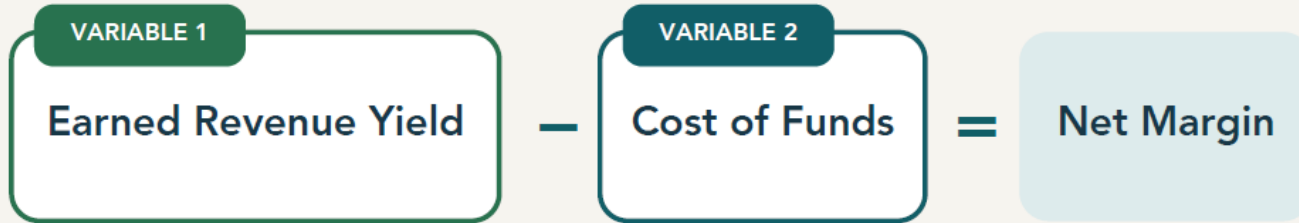
Risk Adjusted Net Margin

of Average Daily Principal Bal

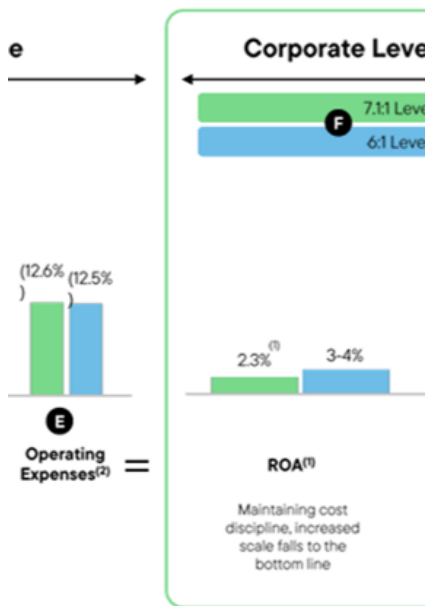


- Revenue Yield – Cost of Funds = **Net Margin**
- Net Charge Offs / Portfolio AUM = **Provision Expense**
- Provision is a better picture of all in risk for CDFIs and a real P&L hit (and adjusts to actual losses over time)
- Net Margin – Provision Expense = **Risk Adjusted Net Margin**
- **What does it tell you?** Did revenue gain come from excessive risk taking? Alternatively, could margin benefit from more risk taking?

Risk Adjusted Net Margin

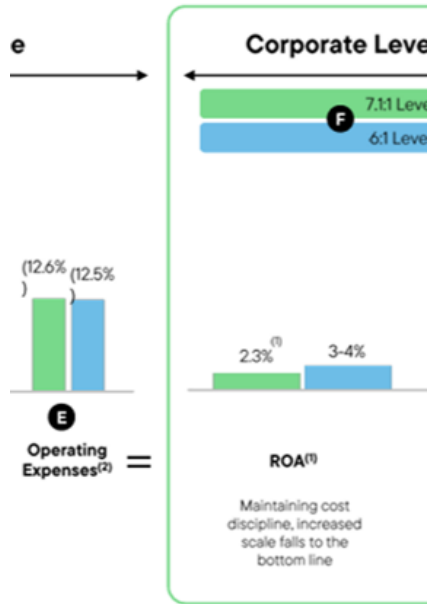


Total Portfolio Returns



- Net Margin – Provision Expense = **Risk Adjusted Net Margin**
- Operating Expense = Total Expense – Interest Expense – Provision
- Operating Expense / Portfolio AUM = **OPEX Ratio**
- Risk Adjust Net Margin – OPEX Ratio = **Total Portfolio Returns**
- **What does it tell you?** Revenue comes with operating expense to generate it (including fundraising!). How is that cost of earning trending.

Total Return (Loss) on All Activity



- Risk Adjust Net Margin – OPEX Ratio = **Total Portfolio Returns**
- Subsidy generation is important part of running a CDFI and is tied to lending.
- **Rate of Contributions** is the total grant income / Portfolio AUM.
- Total Portfolio Returns + Rate of Contributions = **Total Return (Loss) on All Activity**
- **What does it tell you?** How well does the CDFI put together its lending and subsidy business to generate net assets each year.

Total Return (Loss) on All Activity

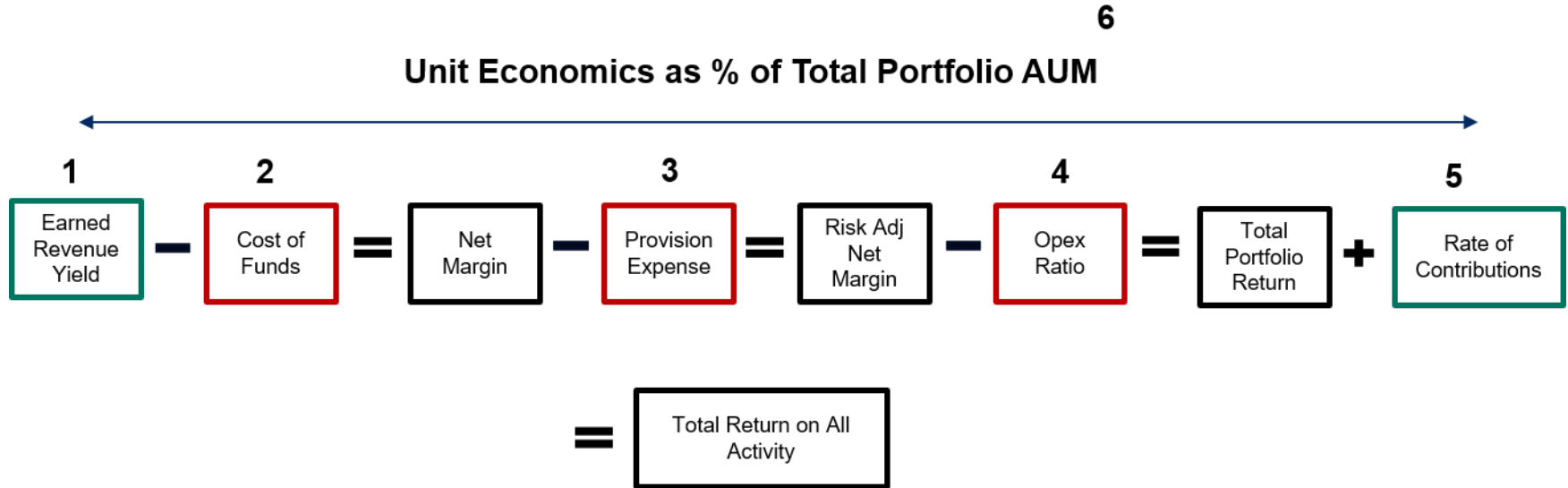
$$\text{Risk Adjusted Net Margin} - \text{OPEX Ratio} = \text{Total Portfolio Return}$$

VARIABLE 4

$$\text{Total Portfolio Return} + \text{Rate of Contributions} = \text{Total Return on All Activity}$$

VARIABLE 5

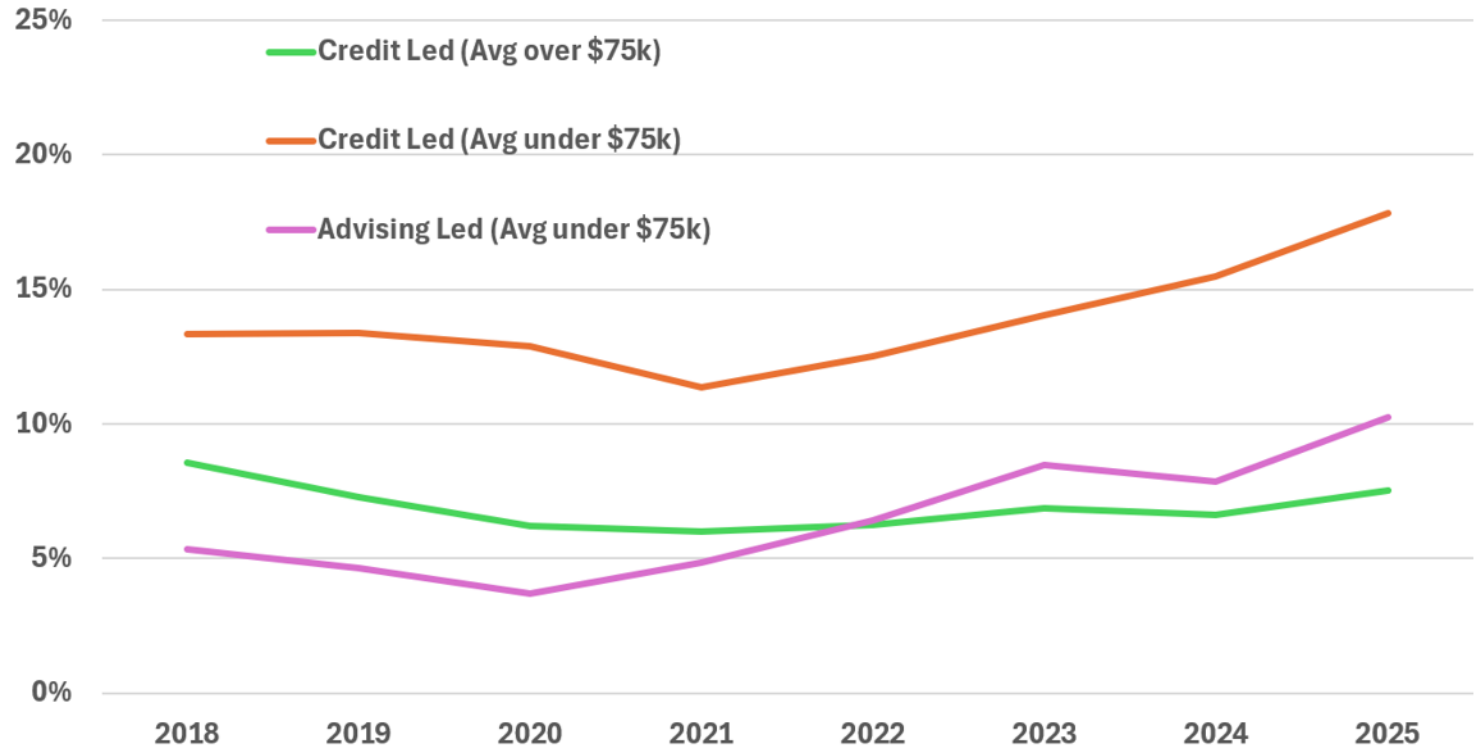
Only 6 Variables Needed to Transform Your Data



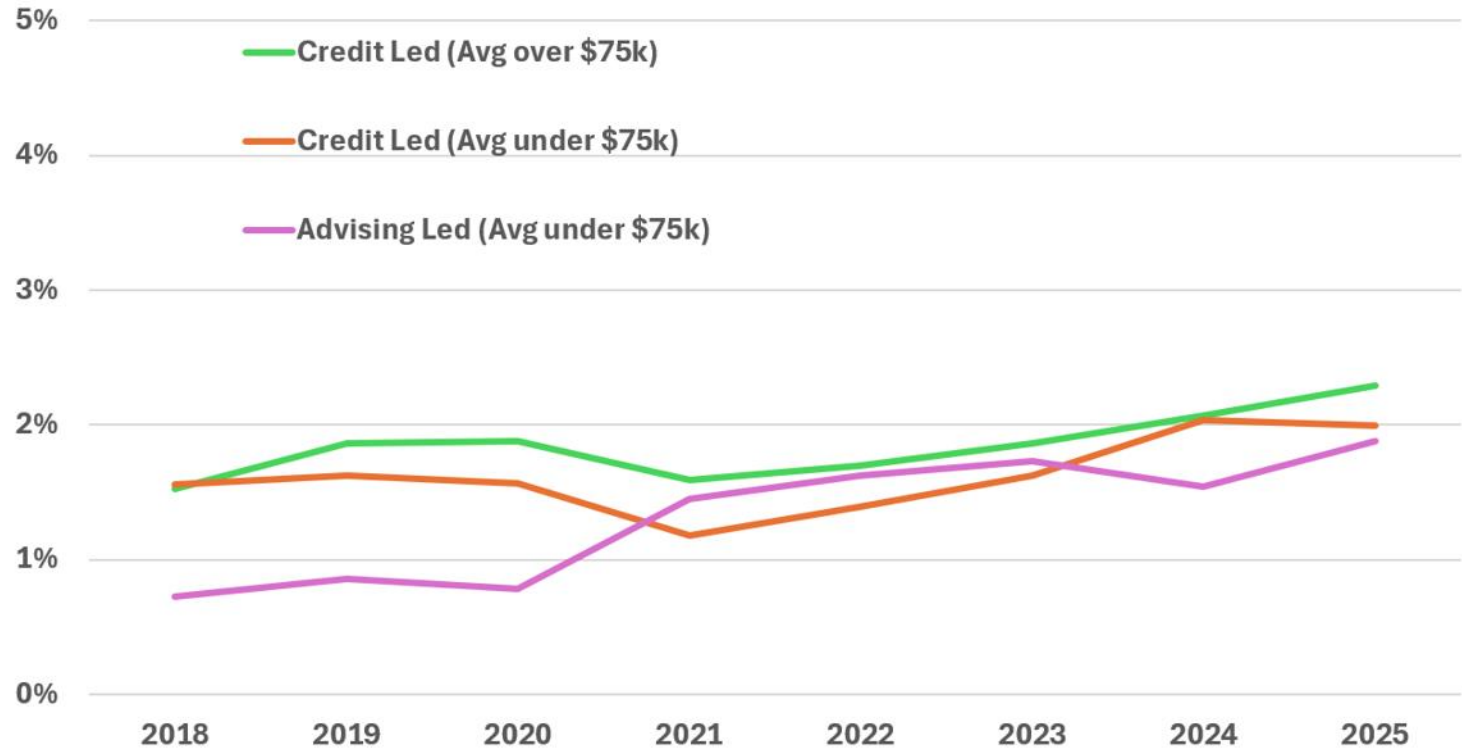
What does all this achieve?

1. At the end of the day, we have reorganized your financials to show how changes in one part impact another. They all add up to the same net income line item.
2. Better shows where you can drive results without ignoring the web of changes that pulling one lever creates.
3. Helps convey the distance traveled to your net income results.
4. Let's look in practice.

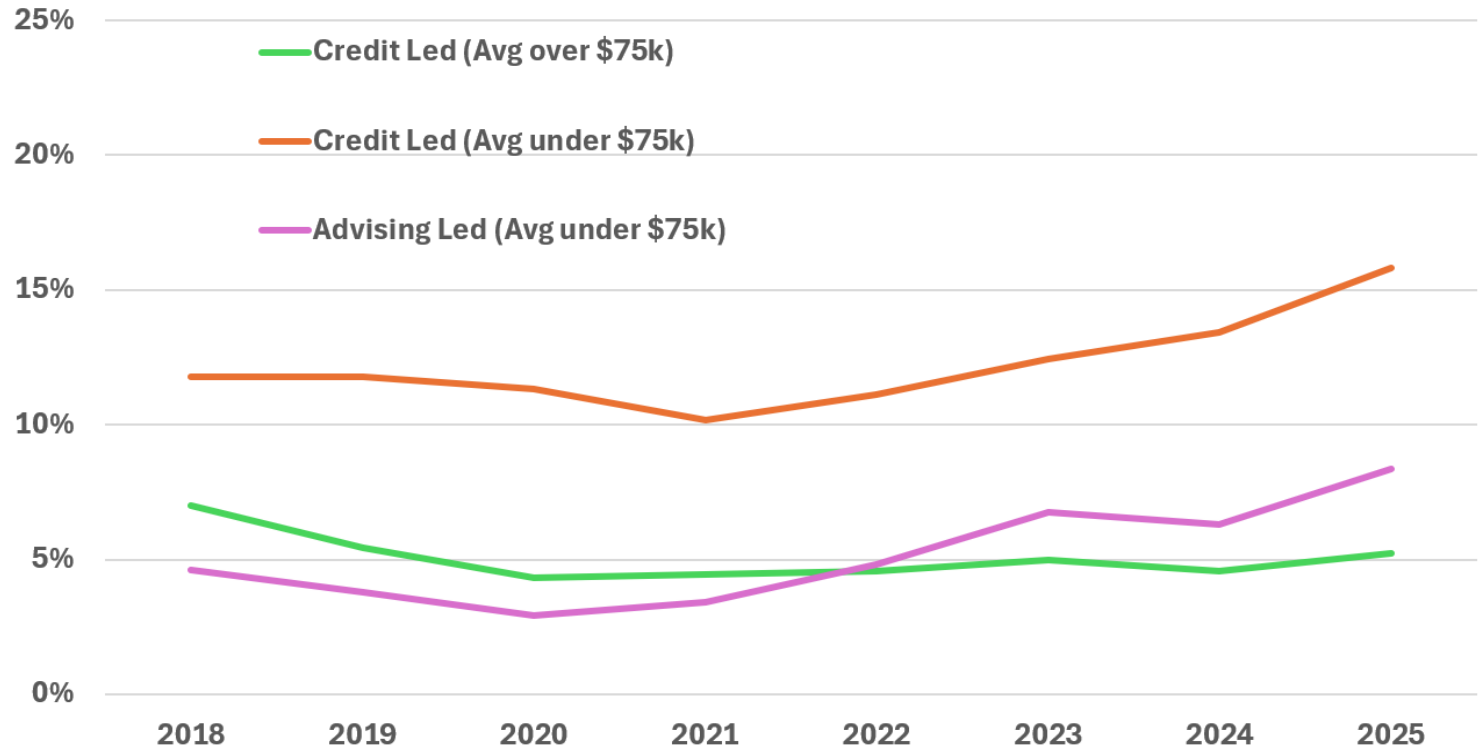
Earned Revenue Yield



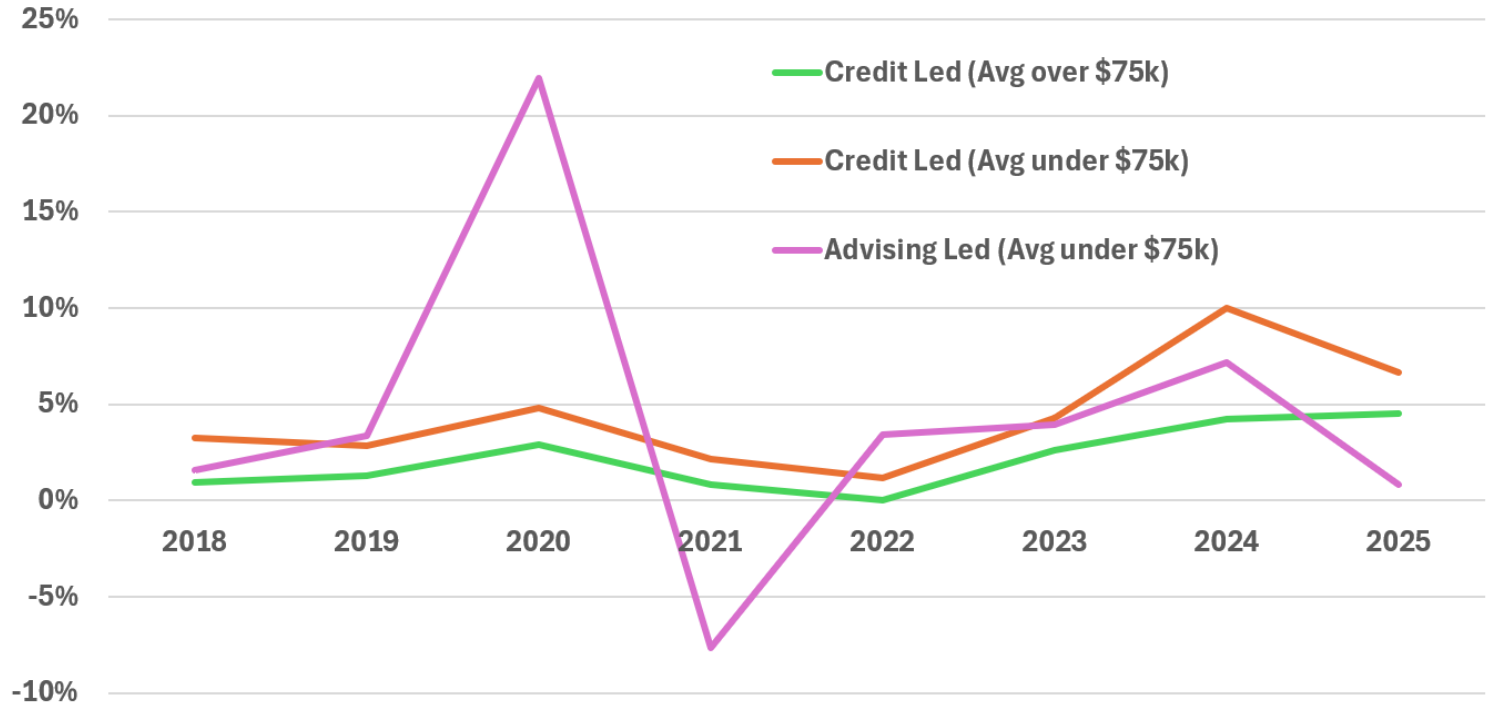
Cost of Funds



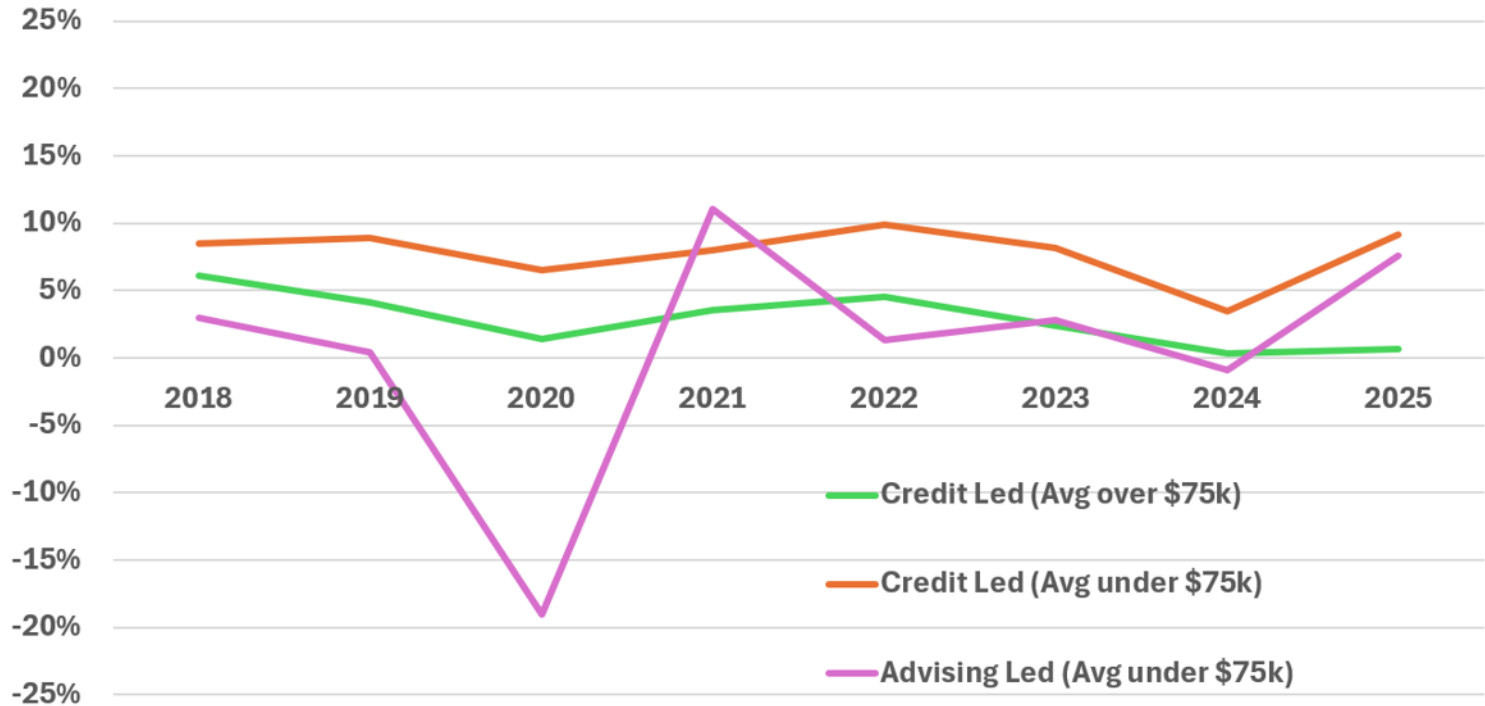
Net Margin



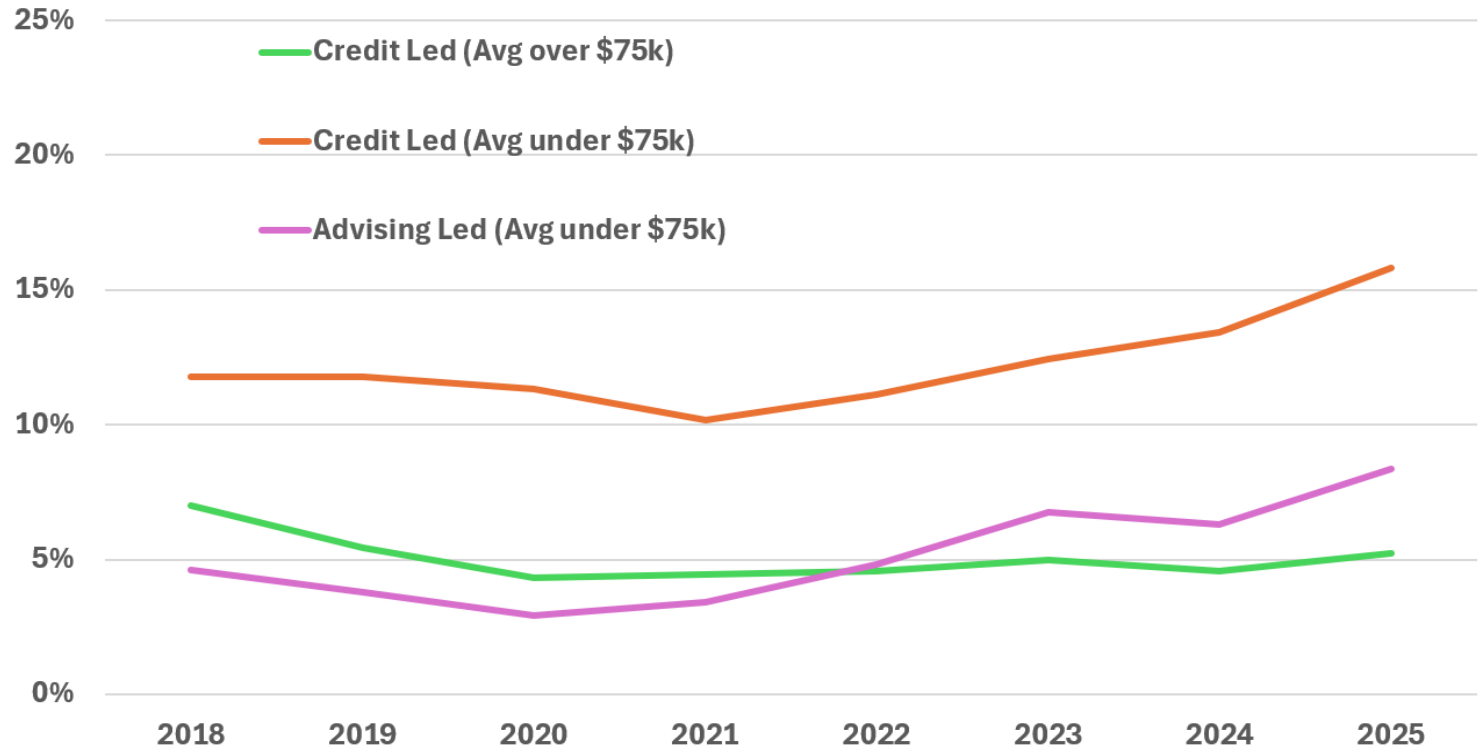
Risk (Provision) on Portfolio



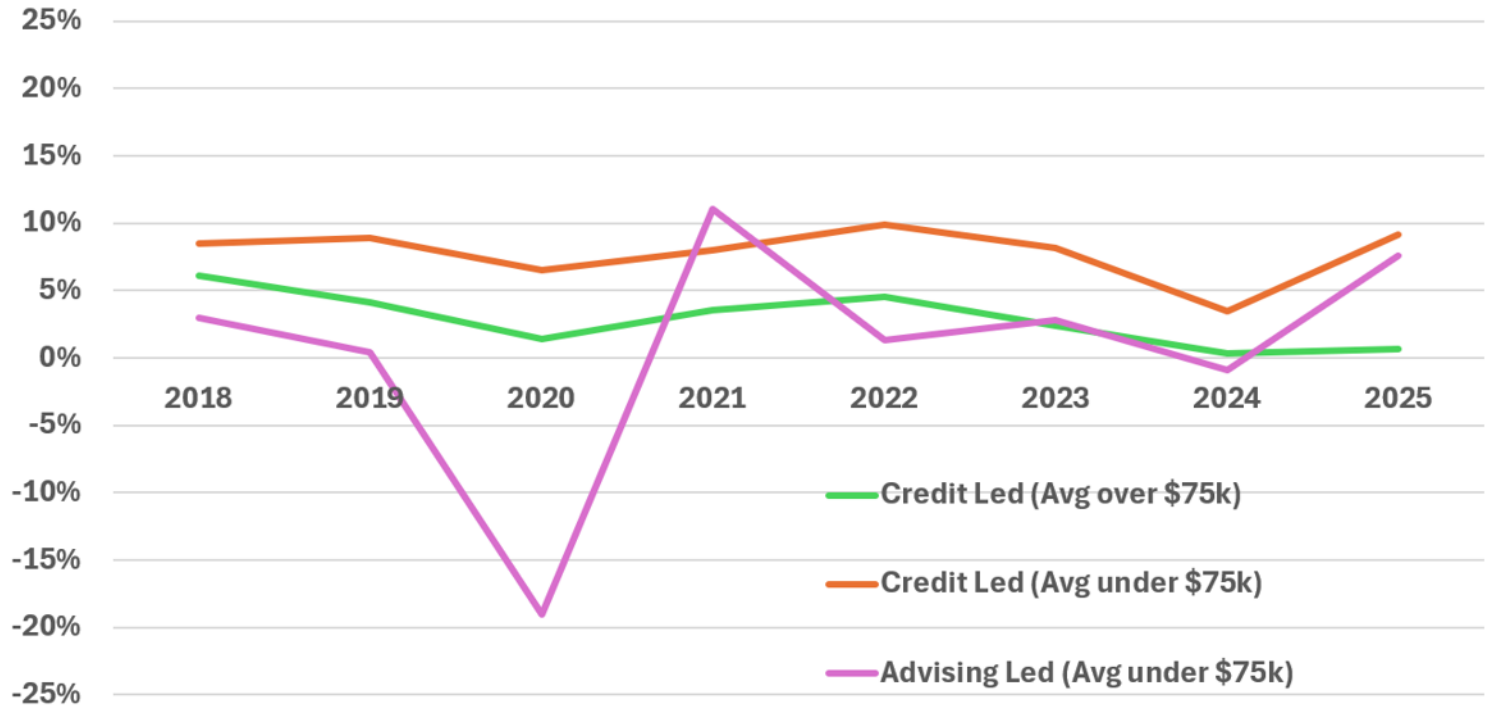
Risk Adjusted Net Margin



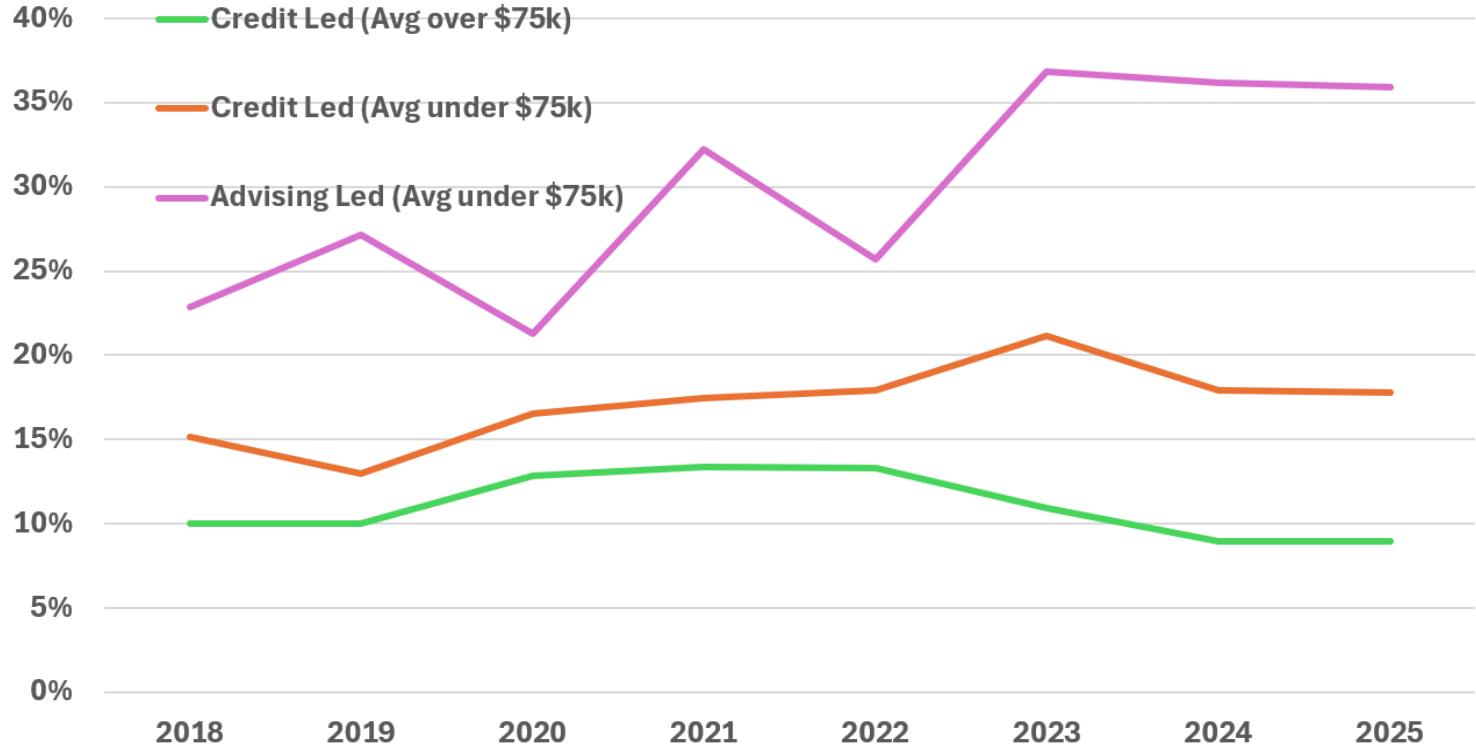
Net Margin



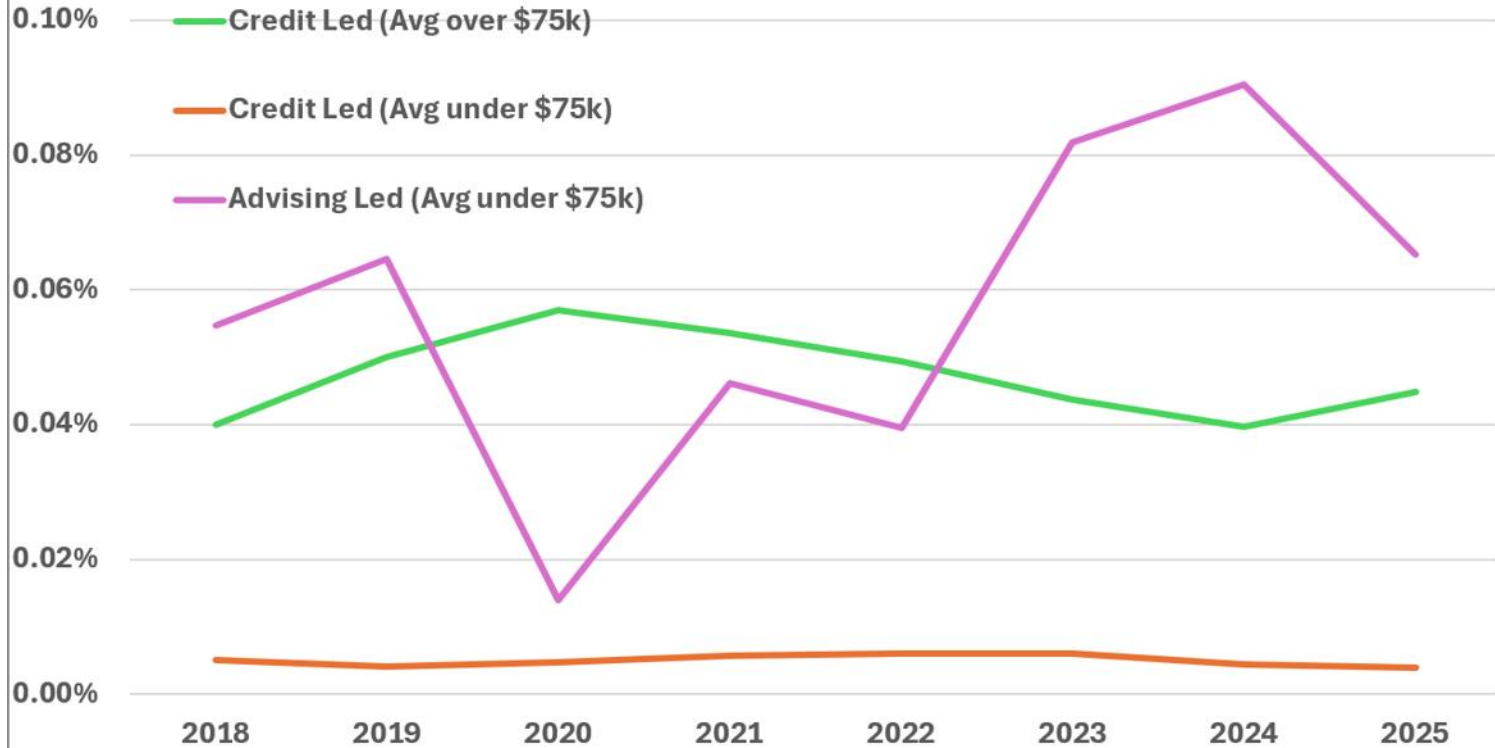
Risk Adjusted Net Margin



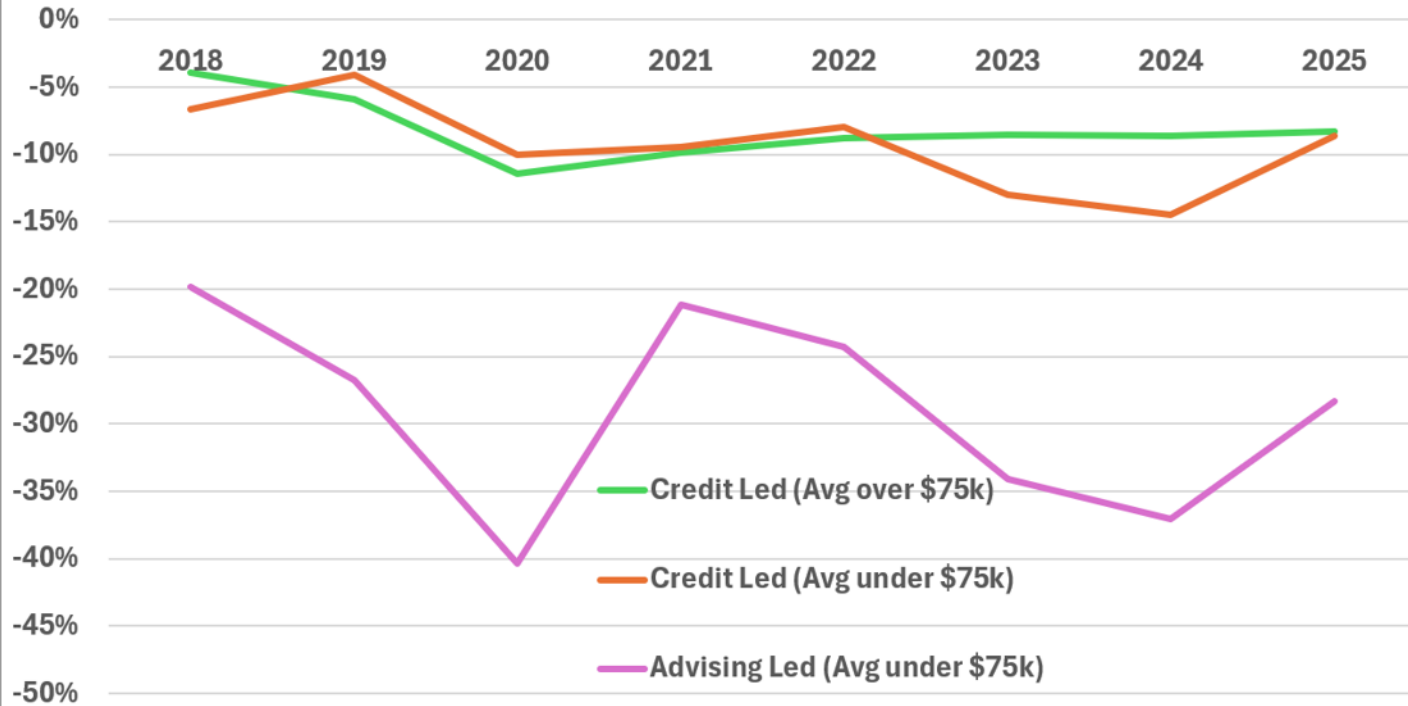
OPEX Ratio



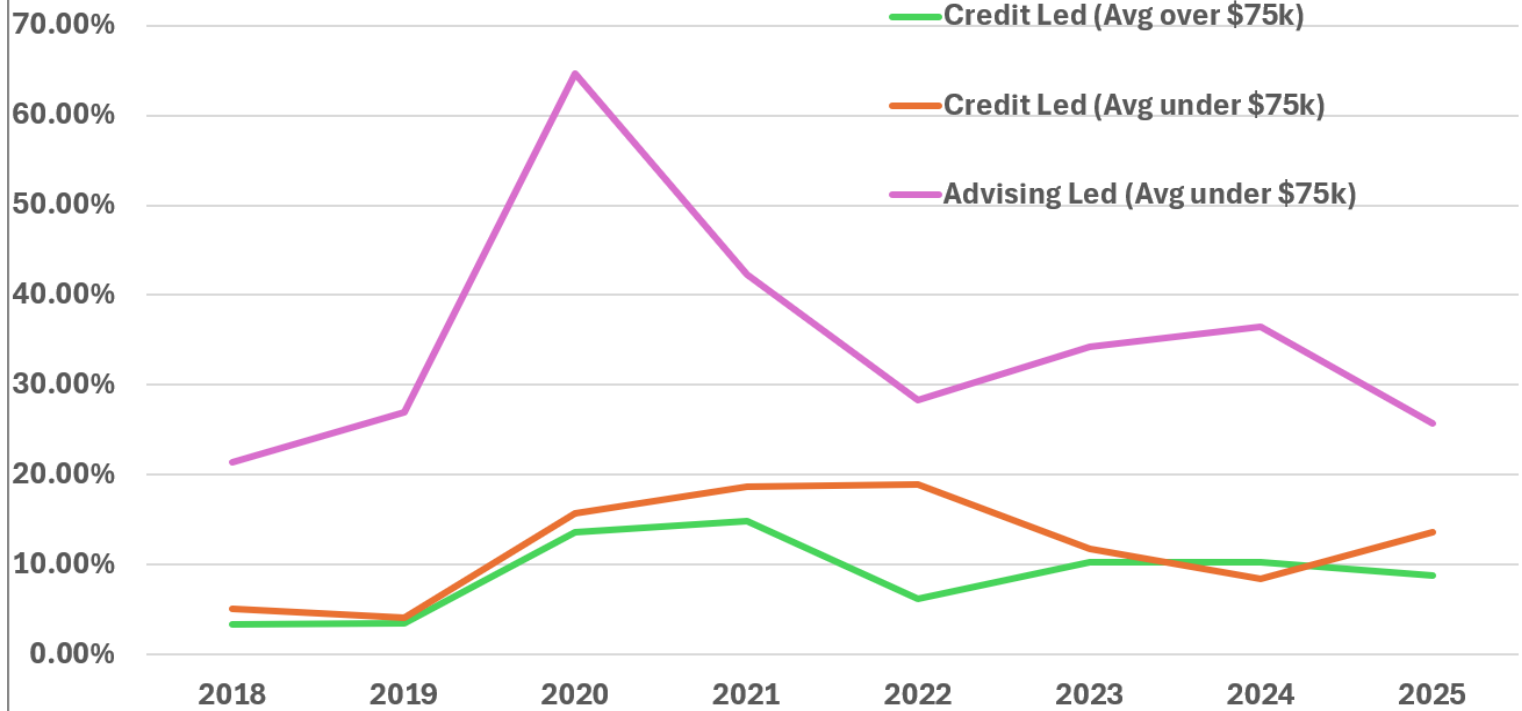
OPEX Ratio Per Loan



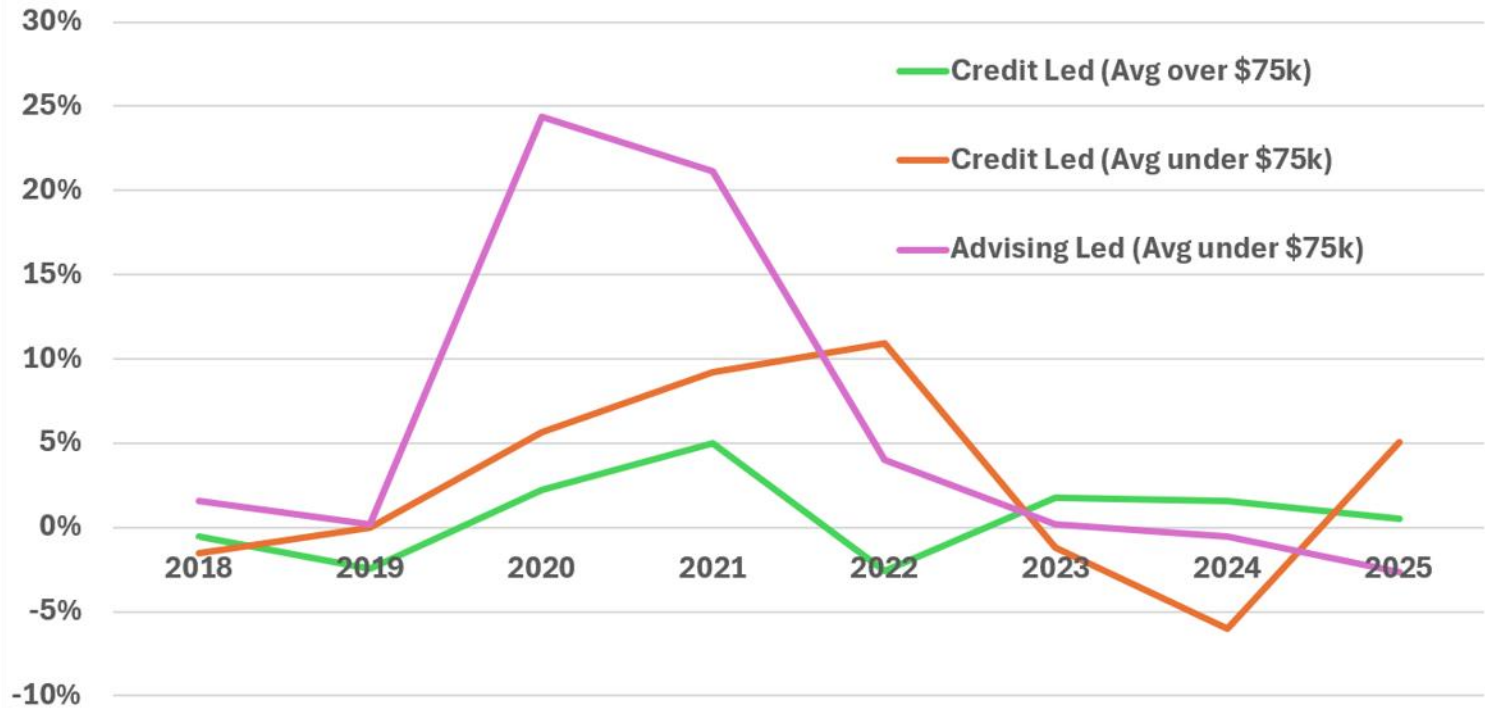
Total Portfolio Return (Loss)

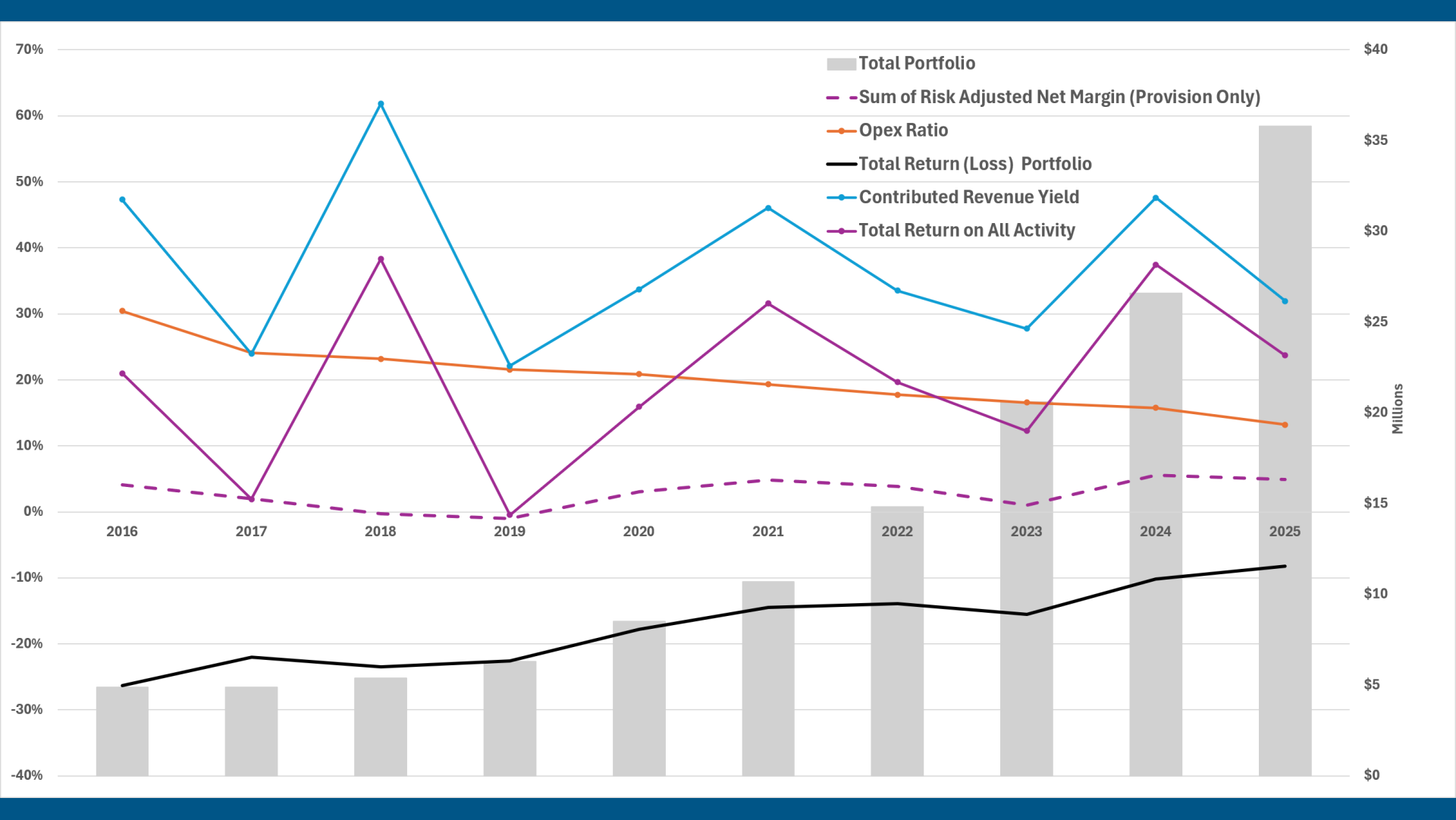


Rate of Contributions



Total Return on All Activity

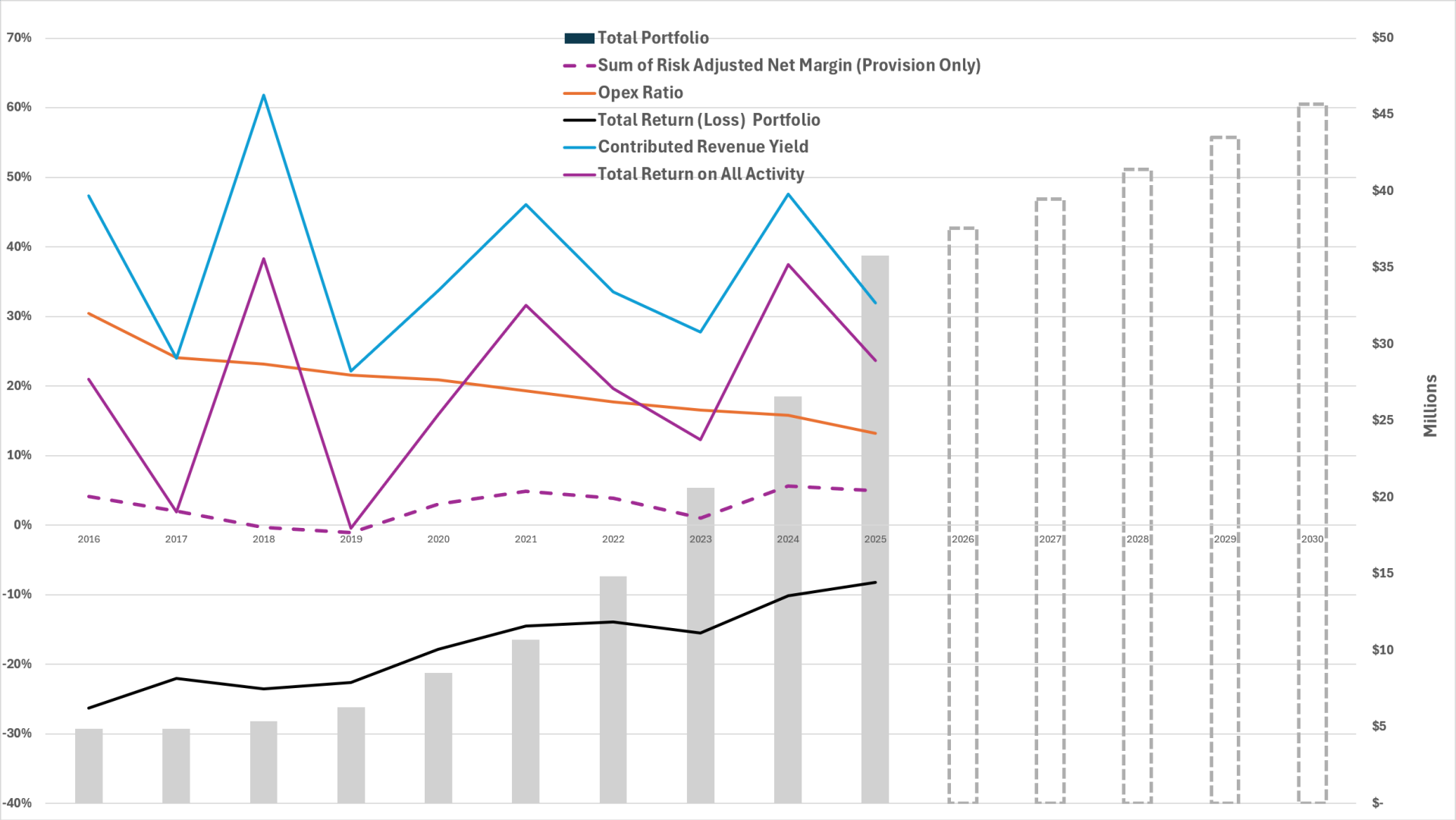


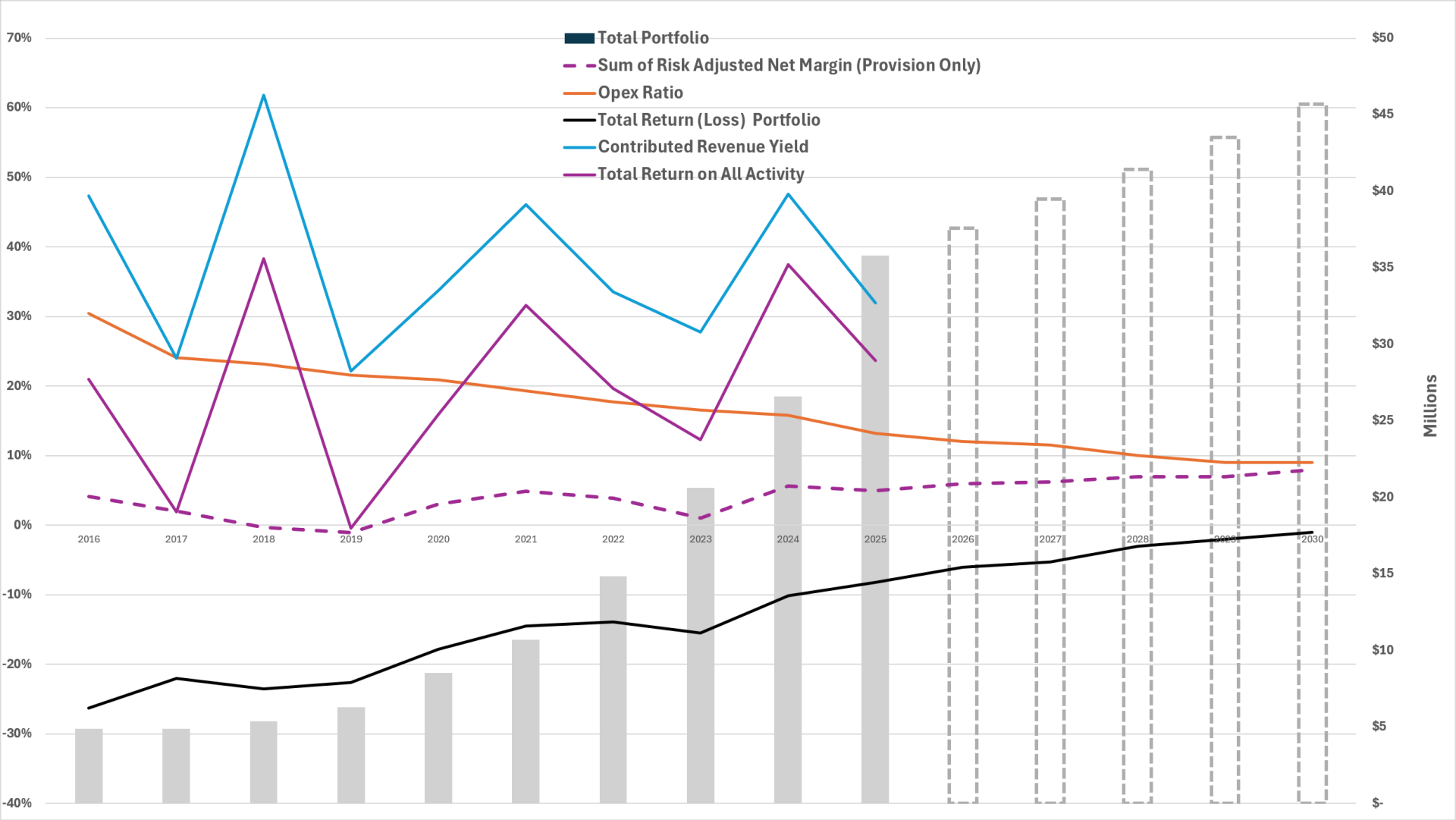


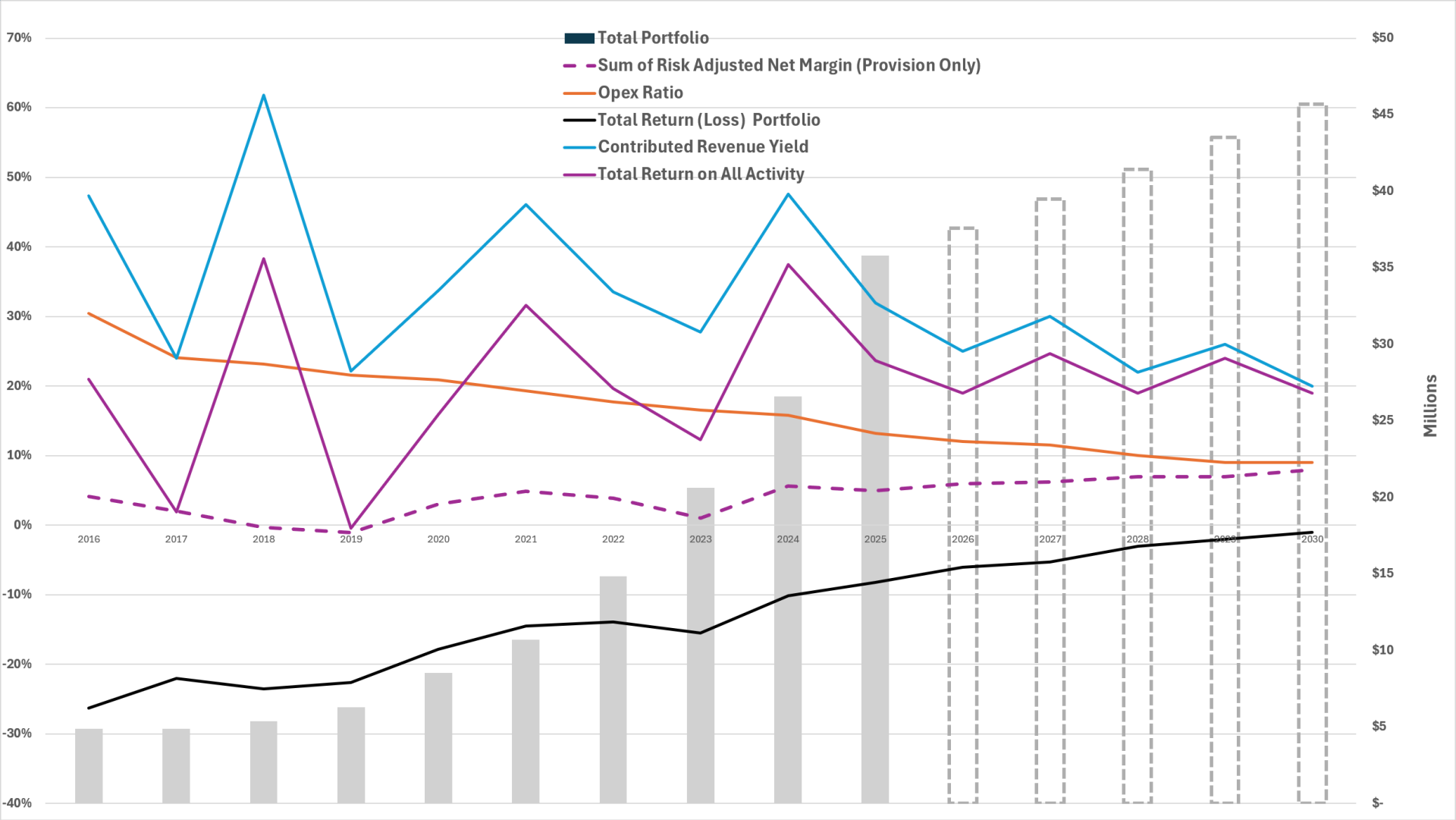
You can also apply this to strategic planning

Sometimes a fancy model can get in the way of seeing the basic tradeoffs at stake (and are less likely to be updated!)

1. Stakeholder sessions confirm products and likely volume of lending. **Forecast new loan receivable.**
2. Reflect on balance sheet and risks. Will costs go up? Is leverage already high? Do you have enough net assets? Will you charge borrowers more or less? **Forecast a risk adjusted net margin.**
3. Do you have the right processes, people, and technology to grow without growing expenses as fast? **Forecast an OPEX Ratio.**
4. What is the funding environment? Can you expect the same results? **Forecast a contributed revenue forecast.**
5. **In 20-30 minutes of initial thinking, you can have a first pass view of your organization's future and the trade offs to get there.**





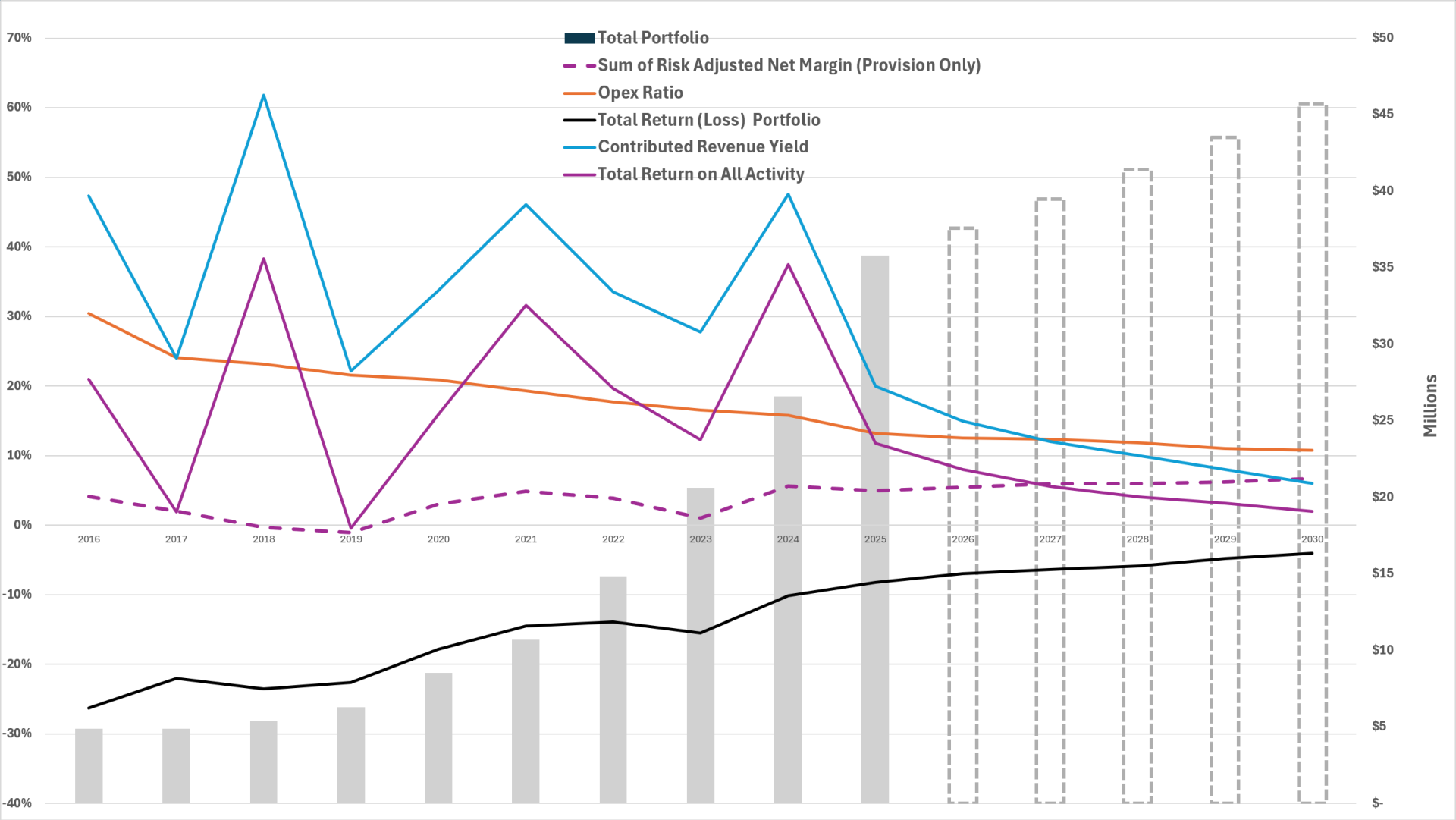


Trade offs and questions easily raised to address

1. As growth rate slows and opex is forecasted down, can you grow while cutting opex per year by \$400,000 by 2030?
2. The forecast requires raising between \$9M and \$11M per year in grants, is that possible?
3. We can generate \$1.8M more in margin by 2030 but it will require charging borrowers an average of 400 basis points more and not increasing losses. Does that fit with what our community can manage?
4. Will we require much more debt? Forecast principal returns.

In a second pass hone in the risks

1. We will grow our opex ratio downwards and only require \$250,000 more per year in dollar costs. We will hire 2 to 3 FTE.
2. We will assume the worst for grants and drop them gradually to \$2.7M.
3. We won't as aggressively boost the net margin. Instead, looking to increase 275 basis points.
4. With these revised assumptions, we can still generate positive net income assumptions each year.



“Distance Travelled” as a future addition

1. Used in school reviews to not penalize those who take on hard mission communities, and alternatively, so that already high-test score schools have incentive to still push further.
2. CDFI measures too one-size-fits-all and end up penalizing models that are simply harder to do, but mission rich, while not pushing other CDFIs hard enough.
3. We are learning how to apply our analysis in this way.
4. **Benchmark data is coming this fall 2026!**

Covenants can still stand in the way

1. Delinquency relative to the loan loss reserve AND net assets ($\text{PAR } (\$) / (\text{LLR } (\$) + \text{NA} (\$))$). LLR and NA represent available financial bandwidth to deal with losses and repay debt holders. AND, after loan sales, they adjust so the calculation won't drive avoidance of good revenue strategies (sales with premiums) that boost earned revenue yield.
2. Net Income (Loss) should also be looked at relative to "excess" net assets ($\text{Net Income } (\$) / \text{Excess NA} (\$)$). Excess would be net asset dollars above those needed to maintain a 20% net asset ratio. This would give an organization the ability to use net assets to fund losses and grow. Loss taking (investment) could bring mission impact faster (losses in some areas but gains in others).

How can we best support your work?

- Please provide us with any feedback on tools and what else you might want or need. Email joyce.klein@aspeninstitute.org or brett@blueasteradvising.org.
- Talk to us at OFN 2026!
- Stay tuned for paper with benchmark data this fall!